

# Expansion of spanish clothing retailer zara's



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This article examines the case of the Spanish clothing retailer Zara's experience of and plans for further expansion into Southern and Northern American markets. It argues that given the unique distribution and production functions of the retailer that possible problems exist for continued expansion in the US market. The problems associated with this given the characteristics of local markets and pressures from rival operators' means that a recommendation is made for an adjusted international strategy for the company despite its broad successes elsewhere globally.

### **Introduction**

Globalisation has become an essential element of international marketing principles and it has been argued that one of the keys to success in global markets is the effective development and marketing of standardised products and brands (Douglas & Wind, 1987). Jay (2000) suggests that the development of international enterprises is as a consequence of reduced barriers for trading due to developments in information technology. Jones (2002) argues that successful international operations are those which integrate and cooperate in business activities across national boundaries. It is clear that the clothing industry is a significant part of the internationalisation process in terms of the critical growth of the clothing retailing sector in global markets and attendant activities such as global sourcing.

The international expansion of Zara is led by its parent company Grupo Inditex which is based in Spain and Zara has achieved an impressive annual growth of 26% over the last five years (D'Andrea & Arnold, 2002). Based in Spain Zara has grown from 180 stores to 1.080 stores in 33 countries and in

2002 150 stores were added in 9 countries and further expansion has been planned and expected. As the biggest economy in the world the American market is an attractive one for Zara and stores located in New York were announced as being successful indicators towards future market penetration. The huge American market and especially the North American marketplace was highlighted as the next move for the company's expansion plan yet the diversity in this market and high level of competition creates challenges for continued Zara's success.

### **Environmental Analysis**

A clear understanding of the business environment is essential for companies in competing in the global economy. This is particularly important in relation to international strategy. Environmental analysis can be made from both a macro and micro perspective and both the PESTEL and Porter's industrial analysis are useful instruments of analyses (Johnson & Scholes, 2002). PESTEL analyses the political, economic, social, technological, environmental and legal events that have impacts on a business. Of interest in this case is the signing of the North American Free Trade Agreement (NAFTA) which helped regional economic growth among member countries through eliminating tariffs and government encouragement of foreign direct investment. This creates threats to Zara in terms of an entry model as well as marketing strategy. The American market is highly attractive for multinational companies such as Zara. The US is the number one economy in the world although since the terrorist attacks in 2001 the American economy slowed down accompanied with a reduction in consumer confidence.

According to Jobber (2001) where national economic performance and customer confidence is poor consumers will reduce consumption of non essential products. This poses problems for Zara in competing in a highly competitive marketplace where demanding for clothing has decreased. Zara however provides luxury clothing products at a reasonable price which provides the company with competitive advantages in terms of price, quality and brand name. The success of Zara depends on an effective logistics system and it is one of the few companies with in-house design and production enabling them to provide new clothing lines within 15 days instead of the 9 months average lead-in time of the textile and clothing industry. It is fair to say that this logistics system based on information technology and computerized design and production programs enables Zara to maintain competitive advantages over other international competitors.

However previous experiences in operating in South America where a complex and large distribution centre was established in order to supply the southern region saw challenges in the integrated supply chain being created. Language as one of the most important elements of culture plays a vital role in shaping international marketing strategy simply because people under different social and cultural environments share different value systems and display varied consumer behaviour (Bradley, 2005). Additionally it is useful to be aware of the new form of political economy which suggests that economic phenomena are highly linked with political issues in that governments seek to use political power to achieve economic benefits (Rugman & Hodgetts, 2003). Examples of this can be seen in the increasing role of developing countries in the world economy. In the case of the textile

and clothing industry more and more retailers and manufacturers source from lower labour cost developing countries resulting in significant competitive pressures on Zara which insists on sourcing mainly from Europe and relying on its in-house design and production.

Porter (1980) provides a useful framework in understanding the industrial environment in which companies are involved in. The competitive level in an industry shapes a firm's strategy in competing in its marketplace and in turn this is shaped by the performance of operators within the industry. It is obvious that competition levels are high in both the North and South American marketplace. Zara entered the South American market where American brands such as GAP and the Swedish brand H&M were major competitors within the middle clothing market. Similarly buyer power has increased in the modern business environment and Zara needs to effectively satisfy customers globally from different nations and cultural backgrounds. Improvement in US consumer confidence demonstrated in the research creates opportunities for Zara in expanding its market from south to the north (BBC News, 2005). Nevertheless the issue of different supply systems needs to be resolved utilising Zara's integrated global supply and logistics chain.

The strategic plan to establish a specific supply and distribution centre for the North America market aims to control cost and maintain competitive capabilities in competing with companies from member countries of NAFTA such as Canada and Mexico as well as local players who source from cheaper overseas suppliers. Due to the nature of the clothing retailing industry the diversity of retailing forms in the US is complex including both large numbers

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as well as different formats for retailers including large retailers, department stores, merchandise shops, small specialty operators and discount stores.

There are potential new entrants into this marketplace and hence it is critical for Zara to be aware of the high competition level in the US clothing retailing industry at all levels of the market.

### **Market Segmentation**

Market segmentation aims to provide relevant information for a basis for the selection of target markets (Bradley, 2005). Zara's targeted customers are people who seek for higher quality clothing products at reasonable prices. In this case targeted American customers were those who expressed interest in European branded clothes. First of all Zara's women collection is divided into three categories: Zara Women, Zara Basic and the sporty Trafaluc representing market segments for women who look for a more formal style, younger women for a more informal style and younger women and teenagers while menswear included Men's Line at Zara, Zara Basics, its club-wear brand 100Zara and Zara Sport (D'Andrea & Arnold, 2002). In this sense the general public from all age groups can be seen as potential customers targeted by specific sub-brands of Zara. A second important variable in defining segmentation is based on psychographic characteristics such as lifestyle which will be discussed in detail in the next section (Jobber, 2001). As one of the most famous and successful European brands Zara in its existing south American market targeted people who were especially interested in European styles at affordable price levels. This targeting strategy remained the same for Zara in expanding in the North American marketplace.

One definition of consumers suggests that it can be seen as individuals as well as groups of people purchase products or services for personal use, household or gifts. In other words they can be classified as end users of particular products (Solomon et al, 2002). Retailers are situated in the final steps of the distribution chain and are closely linked with end users or customers. Therefore it is useful to look at the concept of consumer behaviour in relation to clothing buying in light of target segmentation strategies pursued by Zara. Blackwell, Miniard and Engel (2000) define the initial step of consumption processes as the recognition of needs which can be influenced by various factors such as reference group values, self esteem and external cultural and social value systems. Particularly modern customers have become more sophisticated and learn more from their purchasing experiences with price often deployed as a key indicator as to the quality of goods (Jobber, 2001).

This is arguably the case for buying activity in the clothing sector with brand name, price, style as well as quality tending to have important effects on the decision making processes leading to purchasing. According to Entwistle (2000) clothing is not simply about physical garments but takes on a multi-faceted significance where people use fashion to define and negotiate their identity in wider social contexts. Increasing power for consumers enables them to bargain for lower priced clothing yet it remains the case that pure discount on price is not necessarily important for them in make purchasing decisions. This aspect of consumer behaviour offers a useful insight for Zara in establishing its competitive advantages based on an effective logistics and supply chain through ensuring quality with reduced costs matched to a

strong brand name. Foxall, Goldsmith and Brown (1998) argue that there are several stages after need recognition leading to final buying activity and as such the communication strategy used to build up effective customer relationships and brand image by clothing retailers is most useful at the early stage in order to have a lasting impact on purchasing decisions.

In this retail context women are suggested to constitute a major proportion of consumers (Domosh, 1996). Particularly women are more involved in both social and economic life functions which results in increasing demands on fashion in terms of style and self identity. Additionally a determinant of the degree to which customers evaluate a brand is the level of involvement with high involvement meaning extensive evaluation of the product and/or alternatives (Hawkins, Best and Coney, 1989). For clothing products the degree of involvement is suggested as being typically medium to high (Breward, 2000). Bearing in mind the concept of involvement and the role of women in purchasing Zara used a suite of effective marketing tools in maintaining customer loyalty through providing value added clothing relevant to identified market preferences. This is because in terms of fashion a stylish and sophisticated brand image in terms of trends, styles and tastes is a key success factor in building a brand name for a retailer such as Zara. Similarly effectively maintaining customer loyalty in terms of repeat buying is a major contributor to successfully expanding its market share in the US market.

### **Marketing Strategy Analysis and Evaluation**

Based on its successful experience in operating in New York Zara pursued a strategic market expansion strategy in order to maintain organisational



growth in terms of market share and the accrument of financial benefits. The establishment of a distribution centre in the outskirts of Buenos Aires enabled Zara supply the southern region as well as played a strategic role in supplying the new northern market (D'Andrea & Arnold, 2002). With Zara being one of the few companies utilising in-house design and production meant sourcing locally was its main strategy rather than switching to overseas suppliers. This strategic choice did enhance the competitive capabilities of Zara in terms of short lead time and effective logistics control but added to pressure from competitors who sourced abroad resulting in competitive pricing in the middle market by rivals such as H&M and GAP.

In addition in considering an integrated supply chain the distribution centre to some extent caused inefficiencies in the overall system in that decisions on the choice of local manufacturers had been made difficult due to the closure of American textile and clothing manufacturers who moved production lines to Asia. As such the market expansions strategy remains unclear in terms of it achieving growth based on effective franchises rather than through adding new stores and entering new markets. This can be said to be especially the case for the North American market. Although the market size is large and entry barriers are low due to the cultural differences between south and north US regions means significant attention must be paid to the marketing mix in order to achieve synergy from integration. Life styles are different in North and South America hence the branding strategy used by Zara is essential in differentiating itself with both from existing rivals and attracting new customers within each of the respective markets.

**Evaluation of marketing mix**

In the context of international market and keeping in mind different macro and micro environmental conditions an international marketing mix needs to be varied from one context to another (Keegan & Green, 2003). Based on the branding marketing mix strategies it is of importance to look at international marketing models in the North American market considering different operational environments and different consumer behaviour in southern and northern markets.

**Product and brand**

The term product not only refers to tangible goods but also entails intangible attributes such as customer service and brand name (Keegan & Green, 2003). As a retailer Zara provides a similar range of products in both the southern and northern markets in the US as those provided in its domestic market. However the intangible resource which Zara as a strong brand in New York occupying the middle fashion market appears to be less visible more broadly in the North American markets in comparison with the national brand image of GAP. Traditionally the brand image of Zara as a retailer is one targeted on middle income consumers seeking high fashion styles at reasonable prices. As a result of successful operation in the EU market as well as Asian and South American markets Zara was able to create a strong brand image in the middle fashion market in order to compete with GAP and H&M who are also two major operators in the wider global market.

**Price**

Price is argued as being an important indicator for customers in evaluating the quality of products and within the clothing sector this also holds true

(Easey, 2002). The price mix deployed in the US market is double that found in its domestic region in Spain due to higher operational cost and higher labour costs. It has been suggested that the clothing industry is labour intensive and that effective human resource management strategy contributes in a key manner to effective cost control and in turn allow for competitive pricing in the market (Jones, 2002). As a result the operational strategy employed by Zara has been consistently challenged by competitive pricing from competitors who source from cheaper developing countries. As a result the efficacy of an integrated logistics and supply chain can be questioned along with the ability of maintaining this over the long term given the diversity and complexity of the clothing manufacturing industry in the US. In sum Zara's operation in international markets appears to be experiencing rapid growth in terms of new branches and improving sales and profit but longer term challenges need to be addressed as a priority. Easey (2002) argues that pricing regimes for clothing products may need to change depending on different characteristics in each national market but that communication and management of these changes need to be directed from a strategic level.

### **Communication**

An integrated communication strategy is an important part of the marketing mix within a branding strategy framework. This seems to be even more essential in the clothing retailing industrial context involving the use of celebrities as a critical communication tool in communicating with customers. For Blythe (2000) marketing communications objectives are created in order to develop a customer base and improve sales through

increasing both new and existing customers' expenditure on a brand's products. However Zara has rarely exploited advertising campaigns except in the case of its launch of two main product ranges occurring seasonally each year. This can help explain its low brand awareness in the North American market which is a threat to successful entry into this marketplace. Additionally visual merchandising such as store design and layout has become widely regarded as important communication tools with consumers (Lea-Greenwood, 2002).

In the case of Zara store design such as clear lighting, white walls and ceiling and style-related decorations such as photographs were deployed in order to create an elegant atmosphere emphasising a brand image reflecting European trends. Likewise employee uniforms helped Zara maintain a visual and physical presence of the brand image and helped in communicating with customers and needed only minor adjustments between southern and northern stores. It is believed that the format and experience of a trading environment particularly in clothing retailing interacts closely with merchandise, customer service and the success of communications strategies (Walters & Hanrahan, 2000). It can be argued that the communication strategy used by Zara is effective in terms of communicative effects and of a lower cost than its competitors. On the other hand establishing a significant nationwide presence in North America may require either a large expenditure on a celebrity endorsed campaign or the effective use of novel techniques such as viral marketing.

**Distribution**

The distribution channel is the network which links producers with users yet international distribution strategies are difficult to manage since distribution structures differ from one country to the next (Keegan & Green, 2003). For Zara the US market presents unique challenges. As mentioned earlier the closure of US local manufacturers and moves to Asian manufacturing operations poses major threats to Zara which traditionally exploits local sources in supporting its in house design and production. Due to the highly fragmented nature of fashion retailing it is vital for Zara to differentiate itself from other competitors during its entry stage into the North American market. In considering these difficulties in enter this market and the different cultural backgrounds involved Zara pursued an organic growth in terms of opening stores in its expansion.

This is because a strong financial background based on its successful operation both in New York and support from its parent company Grupo Inditex allowed for a longer term fiscal view to be taken. However the use of English in the US market is likely to present challenges for the Spanish company but successful international human resource management should counter this and lead to successful implementation of its strategic expansion plans.

**Conclusion**

In order to maintain organizational growth Zara employed an aggressive expansion strategy in responding to internationalisation and globalisation. Research demonstrates that a strong global brand name is one of the most vital elements contributing to the success of international operations (Wigley

et al, 2005). However a key consideration is cultural influences which have shaped international marketing strategies for Zara in the US market. An international marketing strategy to some degree remains the same as strategies used in other markets satisfy targeted customer groups effectively. However because of local differences and consumer complexity in the American market adjustments were used such as the establishment of a dedicated distribution centre for the American market.

### **Recommendations**

The marketing mix used by Zara in the US market has been more effective in New York than in other locations. Brand name is a significant part of product concept hence it is useful for Zara to cooperate with local fashion magazines in conducting magazine campaigns in order to improve brand awareness at the market entry stage. Lea-Greenwood's (2002) suggestion that the communication process involves three key participants namely sender, message and receiver must be added to in the sense that practical contexts of business operations in the clothing retailing sector makes this model more complex due to changing forces in the external environment such as developments in media technology and changing characteristics/preferences of consumers. This is also of particular importance in international markets as different cultural and social backgrounds have substantial impacts on consumer behaviour as well as effective communication models.

Secondly higher costs resulted in higher prices for Zara in these locations. This phenomenon is able to generate potential risks to its brand image of quality clothing products at reasonable prices. It is undoubted that in house design and local sourcing provides Zara with competitive advantages such

as short lead times and high response rates to clothing trends but an awareness of local characteristics in the marketplace is essential. In the case of international expansion currency rates have a major impact on operational and labour costs. In turn competitiveness on price might be eliminated because of pressures from competitors who are able to provide even cheaper but goods which are of high quality. As Jones (2002) highlights global sourcing is a key trend and will continue to be so due to globalisation.

Although sourcing abroad raises concerns on supply chain related risks which are often called the Iceberg theory it is imperative that Zara be aware of the significant advantages of sourcing from countries with lower labour costs especially given that quality levels have improved (Jackson & Shaw, 2001). With the North American market there were difficulties for Zara in maintaining its famous on an in house production model simply because of a lack of local suppliers and manufacturers. Additionally labour costs in America are considerably higher compared to its operation in Europe. It is hard for Zara then to enjoy cost advantages offered by Eastern European countries as well as cheap domestic cost in Spain (Jones, 2002). The suggestion here is to consider expanding operations to Mexico which is comparably cheaper than the US yet offers a distribution channel to the North American market. The establishment of a distribution centre in Mexico is more likely to be cost effective rather than building specific manufacturing factories in order to supply the North American market.